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S E C R E T SECTION 01 OF 03 MUSCAT 000445

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SUBJECT: SIGNS OF POSSIBLE CHANGE IN OMAN-IRAN RELATIONSHIP

REF: A. MUSCAT 403
1B. MUSCAT 361
1C. MUSCAT 313
1D. MUSCAT 156
1E. 07 MUSCAT 780

Classified By: Ambassador Gary A. Grappo for Reasons 1.4 (b, d)

SUMMARY

11. (S/NF) While maintaining close, cordial relations with Tehran has long been a priority for the Omani government, Oman has traditionally kept its neighbor to the north at arm's length, resulting in a relationship that is largely non-substantive. Bilateral economic ties remain limited and Oman's security establishment continues to vet Iranian visa applicants with a watchful eye. Yet there are signs lately that certainly Iran, but perhaps with some complicity from Oman, may be trying to strengthen the bilateral relationship. For Oman, this likely is driven in part by its "urgent" need to acquire Iranian gas, while the regime in Tehran may be looking to solidify its relations with an Arab state and GCC member in the face of mounting international pressure over its nuclear program. Post will closely observe several indicators over the coming months to help confirm if a real, albeit subtle, shift in Omani policy vis-a-vis Iran is in the works. End Summary.

CLOSE, BUT NOT TOO CLOSE

12. (C) The present Omani-Iranian relationship is based on common interests including maritime security in the Strait of Hormuz and Gulf of Oman, low-level trade, and potential joint energy development. Devoid of any outstanding territorial claims or other divisive issues, Oman enjoys probably the best relations with Iran of any GCC state. The government in Muscat has longed placed a premium on preserving amicable ties with its northern neighbor, which reflects its overall policy of respect for and non-interference in the affairs of other countries, and is especially careful not to antagonize the regime in Tehran. There are several long-standing bilateral consultative mechanisms between institutions in both countries, ranging from the "Oman-Iran Majlis Friendship Group" to the "Oman-Iran Joint Political Committee," and Omani officials travel periodically for meetings in Iran. Omani Minister Responsible for Foreign Affairs Yusef bin Alawi is a particularly frequent visitor to Tehran. The Omani police and military maintain open channels of communication with their Iranian counterparts on matters such as the smuggling of illegal migrant workers to Oman through Iranian waters, and Iranians have been invited to observe some Omani military exercises.

¶3. (S/NF) Despite the value Oman places on keeping good relations with the government in Tehran, it has at the same time been careful to keep a comfortable distance from its Persian neighbor. Apart from a few subjects, the Oman-Iran relationship has been largely non-substantive with little in the way of meaningful cooperation. The "joint committees" are mostly for show and visits by officials of both countries to the other's capital usually result in nothing more than a press statement or a signed agreement with no lasting impact.

Tehran has made a concerted effort of late to put an especially positive spin on these sessions, while the Omanis maintain their customary silence or politely nod. Reflecting the Sultan's traditional wariness of the destabilizing potential of Iranian nationals, Iranians wanting to travel to Oman must apply for a visa at an Omani diplomatic mission. The names and biographic information of Iranian applicants are sent to and vetted by Omani intelligence before the visa can be granted. Currently there are no direct flights between Muscat and Tehran. Flights between Muscat and Shiraz on Iran's "Asman Airlines" offer the only direct air link between the two countries.

¶4. (C) Given the close proximity of Oman and Iran, their bilateral trade relationship is surprisingly minimal. Private sources estimate that the value of Omani exports to Iran in 2006, for example, was under \$200 million. Much of the commerce between the two states is confined to the intense but small-scale trade conducted daily across the Strait of Hormuz by Iranian speedboats, which bring sheep and goats from Iran to the Omani port of Khasab (for eventual sale in the UAE) and then return laden with cigarettes,

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electronic items and other consumer goods that are difficult or expensive to obtain in Iran. The two branches of Iranian banks in Muscat - Bank Melli and Bank Saderat - do not hold significant assets, according to published reports, and are only marginal players in Oman's financial community. Although the Omani Center for Investment Promotion and Export Development (OCIPED) maintains a small office in Bandar Abbas, OCIPED officials have consistently shown little, if any, interest in business opportunities involving Iran when describing their priorities for developing bilateral markets.

A SLIGHT CHANGE IN THE AIR?

¶5. (C) Against this backdrop, there are indications that both Oman and Iran may be proactively seeking to strengthen their bilateral relationship. As reported previously (ref D), Iran as of late is pushing to bolster ties with Oman through increased tourism, trade and investment and has even attempted to raise the level of mil-mil cooperation. In March, the governor of Muscat formally received the commanding officers of two visiting Iranian naval ships, which were allowed to remain berthed in the capital's port for six days. Two weeks earlier, Bank Melli in Muscat organized a workshop on "banking risks" for local financial institutions. (Note: Embassy contacts reported that the workshop was poorly attended. End Note.) Following the example of the well-publicized trip to Muscat in February of the governor of the Iranian province of Yazd (ref D), a delegation led by the governor of Iran's Hormozgan province conducted a four-day visit to Oman in May. The governor held talks with a number of Omani government officials, including several ministers, and made a strong pitch to the Omani Chamber of Commerce and Industry for increased trade and investment. According to press, he also proposed opening an Iranian commercial office in Khasab.

¶6. (C) Helping to orchestrate the Iranian push to raise its public and commercial profile in Oman is Tehran's ambassador to Muscat, Morteza Rahimi (ref D). Rahimi continues to

actively reach out to local journalists to defend Iran's nuclear program, criticize the U.S., and announce Iranian intentions for relations with Oman. In an uncharacteristic interview with private Arabic-language daily "Shabiba" on May 12, for example, Rahimi encouraged Omani tourists to come to Iran, announced plans to open a "Persian language teaching center" in Muscat, and expressed Iranian President Ahmadinejad's hope that Sultan Qaboos would visit Tehran "soon."

¶7. (C) For its part, the Omani government has given the green light to all these official Iranian visits and has reciprocated with high-level visits to Iran of its own. On April 20, Deputy Prime Minister Sayyid Fahd bin Mahmud al-Said led a large ministerial delegation to Tehran - the biggest and most senior level Omani group to Iran in recent memory - that culminated in the signing of several Memorandums of Understanding (MOUs) and the establishment of a new "strategic dialogue" to discuss bilateral and regional issues (ref C). Foreign Minister bin Alawi, who accompanied Sayyid Fahd, returned to Tehran on May 4 for the Indian Ocean Rim Association for Regional Cooperation conference, while Oman's Grand Mufti, Sheikh Ahmad al-Khalili, traveled on the same day to the Iranian capital to take part in the "International Conference on Islamic Unity." Meanwhile, both bin Alawi and MFA Secretary General Sayyid Badr bin Hamad bin Hamud al-Busaidi have appeared more ready than ever to downplay Iran's destabilizing activities and to dismiss threatening statements from Iranian officials as just political rhetoric intended for domestic consumption (ref A).

(Note: The Omani military and security services harbor more concerns about Iranian intentions than the MFA. End Note.)

MOTIVATING FACTORS

¶8. (C) It is probable that Iran's overtures to Oman are designed to solidify relations with a friendly, yet decidedly pro-West, neighbor in the face of international pressure and sanctions over its nuclear activities. What may be motivating a possible change in Omani policy concerning Iran is more difficult to assess. Muscat, perceiving a regime in Tehran emboldened by recent events, may be acting to establish a separate identity from that of the rest of the GCC and that, therefore, Iran has nothing to fear from Oman.

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¶9. (C) A more certain factor in Oman's current approach towards Iran is natural gas. Omani officials, including at the ministerial level, have repeatedly told us that Oman is in "urgent" need of natural gas to fuel rapidly expanding demand prompted by government-backed industrialization projects. Private business contacts have similarly shared with us their views that a lack of gas is scaling back or even halting some development plans. Attempts to bolster domestic gas production through the awarding of new concessions to innovative energy companies will help meet this need, but will not be enough to solve the problem. Oman is accordingly very serious in attempting to reach a final agreement on developing and importing gas from Iran's off-shore Kish gas field. According to bin Alawi, such a deal is far from done despite Iranian statements to the contrary, but negotiations are reportedly moving ahead on all necessary terms (ref C). Warming up to Tehran in other aspects of their relationship would certainly not hurt Oman's chances of securing an economically viable arrangement.

"WE CAN NEVER BE CLOSE"

¶10. (C) While the MFA may elliptically couch its words to mollify Tehran, others, especially in the security and armed forces, are less coy. Acknowledging the uniquely positive

relationship Oman enjoys and strives to maintain with Iran, they nevertheless insist "we can never be close." Oman takes the position it does because it believes it has to. As one advisor to the Sultan recently commented to the Ambassador, "We have one basket with all of our eggs in it; we can't afford to take risks." Therefore, the dialog, favorable media reporting and frequent interaction will continue and even increase perhaps. However, he emphasized, "there is very little trust." For that reason, Oman will continue to lean on the West, and particularly the U.S., to protect its basket.

INDICATORS TO WATCH

¶11. (S/NF) To help gauge whether Oman may be shifting its attitudes on Iran, post will closely examine the following indicators, among others, over the coming months:

- a) Number of Iranian companies operating in Oman (Baseline: The Iran Insurance Company maintains a branch in Muscat and the Iran Foreign Investment Company is a major shareholder in Taageer Finance Company);
- b) Number of Iranian banks in Oman (Baseline: Bank Melli and Bank Saderat have branches in Muscat);
- c) Direct air links between Oman and Iran (Baseline: One direct flight between Muscat and Shiraz);
- d) Visa processing for Iranians (Baseline: All Iranian visa applicants must apply outside Oman and be vetted by Omani intelligence);
- e) Number of publicly acknowledged visits by senior Iranian officials to Muscat (Baseline: Post will confirm this number for the last 12 months);
- f) Iranian participation as observers in Omani military exercises (Baseline: Undetermined at this time, but post will attempt to establish figure);
- g) Number of port calls by Iranian naval vessels in Oman (Baseline: Two vessels berthed in Muscat in March 2008); and
- h) Tone, tenor and comment of Omani public statements, in contrast to private comments to us, on Iran.

GRAPPO